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April 30, 2001

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Determination of regulated earnings of Tampa Electric Company pursuant to stipulations for calendar years 1995 through 1999; FPSC Docket No. 950379-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and fifteen (15) copies of each of the following:

1. Prepared Direct Testimony and Exhibit (DMB-1) of Delaine M. Bacon. 05327-01

2. Prepared Direct Testimony of James W. Sharpe. 05328-01

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

Lee L. Willis

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Enclosures

cc: All Parties of Record (w/enc.)

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TECO
TAMPA ELECTRIC

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950379-EI

IN RE: DETERMINATION OF REGULATED

EARNINGS OF TAMPA ELECTRIC COMPANY PURSUANT

TO STIPULATIONS FOR CALENDAR YEARS

1995 THROUGH 1999

TESTIMONY

OF

DELAINE M. BACON

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DELAINE M. BACON

Q. Please state your name, address, occupation and employer.

A. My name is DeLaine M. Bacon. My business address is 702 North Franklin Street, Tampa, Florida, 33602. I am the Director, Financial and Strategic Analysis for TECO Energy, Tampa Electric Company's ("Tampa Electric" or "company") parent.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science in Accounting from St. Leo College and a Masters of Business Administration from the University of Tampa. I am a Certified Public Accountant and a member of the Florida Institute of Certified Public Accountants. I joined Tampa Electric in October 1984 where I have held various positions within the Regulatory Affairs department, including the Director of Utility Financial Analysis until July 2000 when I was promoted to my current position. I am responsible for strategic and financial-related issues for TECO Energy, as well as developing TECO Energy's long-term financial forecasts.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the approach and validity of the company's cost/benefit analysis. The cost/benefit analysis was developed to demonstrate the net benefits that customers received from certain tax positions taken by Tampa Electric that were later disputed by the Internal Revenue Service ("IRS"). I will also address the consistency of the cost/benefit analysis with the intent of the settlement agreement dated September 25, 1996 between the Office of Public Counsel ("OPC"), the Florida Industrial Power Users Group ("FIPUG") and the company (the "Stipulation").

Q. Have you provided any exhibits to support your testimony?

A. Yes. My Exhibit No. ______ (DMB-1) consists of two documents.

Q. Why would a cost/benefit analysis be used?

A. A cost/benefit analysis is generally used to either determine the best approach for making a decision on a prospective basis or to confirm whether a previous decision was appropriate.

Q. Please describe the basis used in the cost/benefit analysis for determining the treatment of Tampa Electric's tax deficiency interest expense.

A. The cost/benefit analysis examined Tampa Electric's past tax positions to determine the appropriateness of including tax deficiency interest expense in the calculation of 1999 earnings. These tax positions created deferred taxes that were included in the company's last rate case and in the calculations of deferred revenues that benefit customers.

The basis of the cost/benefit analysis, therefore, is to determine whether the deferred tax benefits resulting from Tampa Electric's tax positions outweighed the eventual cost of associated tax deficiency interest expense. It is important to recognize that the deferred taxes and tax deficiency interest expense included in Tampa Electric's cost/benefit analysis are related to the very same tax positions. The cost/benefit analysis is included as Document No. 1 of my exhibit.

Q. Did Tampa Electric's cost/benefit analysis include all of the tax positions that were contested by the IRS, including those unrelated to the tax deficiency interest expense booked in 1999?

A. No. The company took a very conservative approach to its cost/benefit analysis by only including deferred taxes that were linked to the balance of tax deficiency interest included in its 1999 surveillance report. There were additional deferred tax benefits for ratepayers on issues contested by the IRS that did not lead to tax deficiency interest because the issues were resolved in the company's favor.

The approach for Tampa Electric was more conservative than the approach referenced by the Florida Public Service Commission ("Commission") when approving the tax deficiency interest for Florida Power Corporation ("FPC") in Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI. Document No. 2 of my exhibit shows the $17.8 million benefit that the Commission cited for approving FPC's tax deficiency interest. This $17.8 million result included the deferred taxes related to all issues raised in the

IRS Revenue Agent's Reports ("RAR"), regardless of whether the issues were later resolved for lesser amounts. This provided a larger deferred tax balance to compare to the tax deficiency interest. In contrast, Tampa Electric made a decision to narrow the benefits to only include those deferred taxes that were directly related to the interest expense included in its 1999 surveillance report. The benefits would have been greater if analyzed consistent with FPC's approach.

Q. Has the cost/benefit analysis approach utilized for Tampa Electric been accepted by the Commission in other cases?

A. Yes. The Commission required a cost/benefit analysis from FPC in its last rate case. The Commission also required an analysis from Peoples Gas System ("PGS") in Docket No. 971310-GU for determining whether tax deficiency interest expense should be allowed for determining the amount of over-earnings subject to refund for 1996. The Commission examined the benefits provided to customers from including deferred taxes in PGS' last rate case compared to the cost of the tax deficiency interest.

Q. Please explain the approach of the cost/benefit analysis used for determining the prudency of tax deficiency interest expense in 1999 for Tampa Electric.

A. The cost/benefit analysis for Tampa Electric considered two separate rate impacts to customers. First, it looked at the revenue requirements used in determining the company's current, permanent base rates. Second, the analysis considered the costs used in determining the deferred revenues and eventual refunds designated by the Stipulation.

The approach of the cost/benefit analysis was to examine the impact of the company's tax positions on these two separate rate impacts. The analysis first evaluated whether the tax positions taken by the company up to its last rate case resulted in lower permanent rates. The tax positions were then analyzed to determine their impact on the deferred revenue refunds provided to customers under the Stipulation.

The analysis proved that the company's actions leading up to its rate case, and for each year of the Stipulation period, lowered Tampa Electric's cost of capital. The lower cost of capital provided benefits to customers in excess of the tax deficiency interest expensed in 1999.

Q. How was the company's cost of capital reduced as a result of its tax positions?

A. The company's tax positions increased its deferred taxes, which are considered a cost-free source of funds and are included in the capital structure at a zero cost. If deferred taxes resulting from the company's tax positions were not utilized, then the company would have had to fund investments with other sources of capital such as debt and equity. These higher cost sources of funds would have increased revenue requirements for the rate case and for refund calculations under the Stipulations.

Q. What is the impact to customers in the cost/benefit analysis from deferring less taxes?

A. As shown in Document No. 1, the results of the cost/benefit analysis proved that customers enjoyed a $12.4 million nominal net benefit ($18.3 million if the historical benefits were brought to 1999 dollars with the opportunity cost of funds) as a direct result of Tampa Electric's tax positions on the specific issues included in the tax deficiency interest. In the cost/benefit analysis, the deferred taxes associated with the contested tax positions were removed from the capital structure and replaced with other external sources of funds, which resulted in an increased cost of capital.

The cost/benefit analysis measures the impact of how much higher rates would have been and how much less the deferred revenue refunds would have been during the Stipulation period if the company had not taken its tax positions. The higher permanent rates that were avoided and the potential for lower refunds were then compared to the actual cost for the tax deficiency interest to determine if customers received a net benefit (or cost) from the tax positions taken by the company.

Q. Would the cost/benefit analysis prove benefits for customers if the rate case impacts were ignored?

A. Yes. The cost/benefit analysis would still provide net benefits to customers even if the rate case items were ignored. If the rate case impacts were excluded from the cost/benefit analysis and only the deferred revenue years were analyzed, a $6.8 million net benefit would have been realized for customers.

Q. Is Tampa Electric requesting that the net benefits to customers resulting from the cost/benefit analysis be used to offset refunds for 1999?

A. No. The cost/benefit analysis proves that customers have already received more refunds than they otherwise might have because of the company's tax positions, and that customers have enjoyed lower base rates. However, Tampa Electric is not requesting that these benefits be returned to the company in 1999.

The reason for identifying the benefits is simply to prove that customers received net benefits from the company's tax positions despite the fact that the company incurred tax deficiency interest expense as a result of ultimately losing those positions. Since a $12.4 million net benefit over and above the tax deficiency interest is proven, the above-the-line treatment of tax deficiency interest expense for 1999 is fair and reasonable.

Q. In its protest, OPC states that "Tampa Electric wants to recover purportedly foregone revenues related to deferred taxes, which had not been requested previously, in the form of reduced refunds for the future." Is this correct?

A. No. The net benefits to customers related to the tax issues being addressed are $12.4 million. If the company sought to recover "foregone revenues," i.e., the $12.4 million of benefits that customers have enjoyed over and above the tax deficiency interest expense, there certainly would be no 1999 refund. In simple terms, Tampa Electric has proven quantitatively that its tax positions have been in the best interest of customers, and its decision making should not be penalized when some of those tax positions are disputed by the IRS.

Q. OPC's protest contends that since FPC asked for tax deficiency interest expense in its last rate case and Tampa Electric did not, then Tampa Electric is precluded from recording the expense. Could you please address that position?

A. Yes. OPC suggests that if a balance of tax deficiency interest is not included in base rates, then no tax deficiency interest can be placed as an above-the-line expense in the future. This type of policy would not reflect reality. FPC's current rates include $1.2 million of tax deficiency interest expense. OPC's logic implies that FPC could record no more than this balance in the future. In reality, FPC recorded $1.8 million in 1995, $2.5 million in 1996, $3.6 million in 1997, $4.2 million in 1998 and $6.0 million in 1999. What FPC recorded was appropriate as long as it was prudently incurred.

In addition, Tampa Electric had no tax deficiency interest to claim during its last rate case. To penalize Tampa Electric because another company <u>did</u> have current tax deficiency interest expense during their rate case would not be logical or fair.

In no way are the expenses presented in the utilities' rate cases meant to represent the only recoverable expenses in future years. Expenses for each period under review are examined for prudency. A cost/benefit analysis is a Commission method for determining whether tax deficiency interest is a prudent expense.

Q. Since the Stipulation specifically allowed tax deficiency interest related to the Polk Power Station, does this mean that all other tax deficiency interest expense is disallowed?

A. No. One of the controlling events surrounding the Stipulation was the construction of the Polk Power Station. The reference to tax deficiency interest for the Polk Power Station was included to address the tax position that the company was taking on its seven-year tax life. Through the language proposed by the Company in the Stipulation, Tampa Electric sought assurance from the parties to the Stipulation that the Polk tax life decision would be supported if the IRS disagreed with this specific tax position. The provision in the Stipulation was never intended to exclude or limit other similar expenses.

OPC's argument also falls short when you take it one step further. For example, the Stipulation addresses the inclusion of the Polk Power Station in rate base. Obviously, the fact that the Stipulation specifically allowed for the investment in the Polk Power Station did not mean that all of Tampa Electric's other new construction projects should be excluded from rate base.

Q. OPC contends that "there would have been no reason to state that tax deficiency interest related to the Polk Power Station would be recoverable since all such expenses would be allowable pursuant to the second sentence of Paragraph 11" of the Stipulation. Could you respond to this statement?

A. Yes. Paragraph 11 does not allow for any and all tax deficiency interest expense. It allows for reasonable and prudent expenses. The actual language in Paragraph 11 states:

> The calculations of the actual ROE for each calendar year will be on an "FPSC Adjusted Basis" using the appropriate adjustments approved in Tampa Electric's full revenue requirements proceeding. All reasonable and prudent expenses and investment will be allowed in the computation and no annualization or proforma adjustments shall be made.

Therefore it is inaccurate to say that Paragraph 11 required guaranteed above-the-line treatment by the Commission for Tampa Electric's expenses.

Q. Could you please respond to other assertions made by OPC regarding the intent of the Stipulations?

A. Yes. OPC's arguments can be easily refuted by focusing on the language OPC chose to add when describing the Stipulation. OPC makes the following statement in its protest:

> "A fair reading of these provisions, giving effect to each, should require Tampa Electric to calculate its 1999 earnings by first recognizing any interest expense on a tax deficiency assessment related to the Polk Power Station and then by using <u>only</u> adjustments consistent with those used in the last rate case. All reasonable and prudent expenses <u>within these categories</u> would be allowed to derive the excess earnings to be refunded." (Emphasis added)

OPC's position would alter the Stipulation language in two important places. OPC states "only" adjustments consistent with the last rate case can be used. The Stipulation referenced by OPC does not contain the term "only." OPC then states that reasonable and prudent expenses "within these categories" would be allowed. Once again, OPC has added limiting language because the second sentence of Paragraph 11 does not contain the words "within these categories." When reading the entire agreement, it is clear that several investments and expenses were listed with no intent to include or exclude any other items within the same categories.

OPC also wrote in its <u>Statement of Position on Appropriate Treatment of Interest Expense on Tax Deficiencies</u> that "Tampa Electric is faced with the first sentence of Paragraph 11 limiting adjustments to those with the last rate case," and "the surveillance report is first limited to adjustments consistent with the last rate case." Paragraph 11 of the Stipulation does not include the terms "limiting" or "limited."

The Stipulations were not designed as a "limit" to exclude all costs that were not specifically identified in its provisions. If so, there would have been no reason to state that all reasonable and prudent expenses will be allowed. Just because Polk-related tax deficiency interest expense was specifically mentioned in the Stipulation does not infer that all other tax deficiency interest is disallowed, whether prudent or not.

A more appropriate reading of the Stipulation would require that adjustments made in the last rate proceeding must be made in determining the return on equity during the deferred revenue period. Then, all reasonable and prudent expenses will be allowed. This is, in fact, the rationale approved by the Commission and explained on page 18 of its Order No. PSC-01-0113-PAA-EI.

Q. OPC has also made statements that tax deficiency interest expense beyond that related to the Polk Power Station cannot be allowed because it was never negotiated. Could you please respond?

A. Yes. OPC has stated that "nothing outside the stipulations can be relevant to calculations consistent with the stipulations," and "something not contemplated by the stipulations could not have any effect, positive or negative, on the amounts deferred pursuant to the stipulations' explicit terms." If this were so, then all adjustments made by the Commission to date that were not contemplated in the Stipulations would not be allowed and should be removed. For example, this would include the adjustments to the company's equity ratio, its short-term debt rate, and to its capital structure for specifically identifying deferred revenues. None of these adjustments were specified in the Stipulations nor included as adjustments in the last rate proceeding, but have been made by this Commission based upon a "reasonable and prudent" criteria.

As mentioned on page 18 of the Commission Order No. PSC-01-0113-PAA-EI, "the interpretation urged by OPC could lead to an unintended result." Using OPC's logic, the Commission would be required to reverse its decisions on several adjustments made over the Stipulation period to the detriment of customers. Tampa Electric does not believe any reversals are necessary, though, because the Commission's decision to not adjust for tax deficiency interest expense was consistent with its decisions to make the other adjustments. As in the past and as it should be in this instance, the Commission has examined the prudency of all expenses and investments for Tampa Electric and has included what is deemed reasonable in the calculation of deferred revenues.

Q. Please summarize your testimony.

A. Tampa Electric's actions in taking certain deductions on its tax returns benefited its customers despite the fact that the IRS rejected some of these positions by the end of 1999. The company's cost/benefit analysis shows that the tax deficiency interest expense was much less than the benefits that accrued to customers as a result of the company's tax positions. This tax deficiency interest was properly considered in the calculation of 1999 earnings as a reasonable and prudent expense.

Q. Does this conclude your testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY

EXHIBIT OF

DELAINE M. BACON

EXHIBIT NO. ________
DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
(DMB-1)

INDEX

Net Impact to Customers From Tampa Electric Tax Positions

	1993	1994	1995	1996	1997	1998	1999	Total
1995-1998 Tax Period								
Avoided lower/(higher) deferred revenue refund			281	714	1,696	2,087	1,034	5,812
Tax deficiency interest expense [1]							(2,433)	(2,433)
								3,379
1992-1994 Tax Period								
Avoided higher permanent rates	(13)	268	268	268	268	268	268	1,595
Avoided lower/(higher) deferred revenue refund			1,123	714	1,357	1,739	827	5,760
Tax deficiency interest expense [2]							(3,544)	(3,544)
								3,812
1989-1991 Tax Period								
Avoided higher permanent rates	1,231	1,307	1,307	1,307	1,307	1,307	1,307	9,073
Avoided lower/(higher) deferred revenue refund			0	0	(1,010)	(2,003)	(815)	(3,828)
Tax deficiency interest expense [3]							(2,182)	(2,182)
								3,063
1986-1988 Tax Period								
Avoided higher permanent rates	487	517	517	517	517	517	517	3,589
Avoided lower/(higher) deferred revenue refund			0	0	(674)	(976)	(404)	(2,054)
Tax deficiency interest benefit [4]							617	617
								2,152
Total	1,705	2,092	3,496	3,520	3,461	2,939	(4,807)	**12,406**
Cumulative net revenue requirements at y/e 1999 $ [5]	2,918	3,274	5,002	4,605	4,140	3,214	(4,807)	**18,347**

[1] $4 054 million total paid times 60 percent impact to customers in 1999
[2] $5 906 million total paid times 60 percent impact to customers in 1999
[3] $3.636 million when $5 195 million total paid is prorated for 7 of 10 years, times 60 percent impact to customers in 1999
[4] $1.029 million when $1 911 million total received is prorated for 7 of 13 years, times 60 percent impact to customers in 1999
[5] at 9 37% Tampa Electric cost of funds

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.15%		
As Filed by Company	8.17%		
Excess Rate of Return		0.02%	
Total Incremental Rate of Return			0.05%
Incremental Net Operating Income			863
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,404
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,236

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	1,892	808,335	46.86%	11.75%	5.51%
Long Term Debt	445,931	1,046	446,977	25.91%	6.64%	1.72%
Short Term Debt	77,331	181	77,512	4.49%	6.01%	0.27%
Preferred Stock	44,105	103	44,208	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(3,223)	236,417	13.70%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.15%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,236
Less to be Deferred	**(281)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	136	4,821	851,241	46.55%	11.75%	5.47%
Long Term Debt	467,909	75	2,666	470,650	25.74%	6.74%	1.73%
Short Term Debt	103,514	17	590	104,120	5.69%	5.47%	0.31%
Preferred Stock	24,058	4	137	24,199	1.32%	5.75%	0.08%
Customer Deposits	41,580	7		41,586	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(281)		77,389	4.23%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	36	(8,213)	214,967	11.76%	0.00%	0.00%
ITCs - Weighted	44,533	7		44,540	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	**(714)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.77%	
Allowed Maximum Rate of Return at 12 75% ROE	8.72%	
Incremental Rate of Return		0 05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	568	6,466	984,890	47.25%	12.75%	6.02%
Long Term Debt	583,150	339	3,856	587,344	28.18%	6.73%	1.90%
Short Term Debt	95,482	55	631	96,169	4.61%	5.47%	0.25%
Preferred Stock	9,459	5	63	9,527	0.46%	5.48%	0.03%
Customer Deposits	47,015	27		47,042	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(995)		57,546	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(11,016)	255,701	12.27%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	**1,696**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.66%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,537	7,804	1,020,674	47.77%	12.75%	6.09%
Long Term Debt	642,241	976	4,956	648,172	30.33%	6.61%	2.01%
Short Term Debt	69,311	105	535	69,951	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	73		48,297	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(2,691)		18,032	0.84%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(13,294)	288,791	13.52%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.66%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	**2,087**

95-98 Tax Years
Deferred Revenue Summary

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1995 Revenue Deferral	50,236
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,753)
1998 Revenue Reversal	(36,156)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,448

Refund Ordered	11,227
Refund Adjusted	6,448
(Additional)/Less Deferred Revenue Refund	**4,778**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.46%	
Allowed Maximum Rate of Return at 12.00% ROE	8.24%	
Excess Rate of Return		0.22%
Excess Net Operating Income		4,657
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,582
Less 40% Sharing		(3,033)
Amount to be Refunded		4,549

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	6,834	1,014,814	47.94%	12.00%	5.75%
Long Term Debt	631,493	4,281	635,774	30.03%	6.54%	1.96%
Short Term Debt	77,699	527	78,226	3.70%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(11,642)	294,397	13.91%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.24%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,549
Additional (Less) to be Refunded	**(1,034)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

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Achieved NOI		$142,732
Adj. rate base	1,749,355	
ROR	8.2000%	
Required NOI		143,447
Net Revenue Deficiency		(715)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(1,150)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	386	748,833	42.81%	12.00%	5.14%
Long Term Debt	514,895	266	515,161	29.45%	7.56%	2.23%
Short Term Debt	39,223	20	39,243	2.24%	4.28%	0.10%
Preferred Stock	48,274	25	48,299	2.76%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(697)	291,780	16.68%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.20%

Avoided Cost from $1.163 Million of Implemented Annual Rates ($13)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

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Achieved NOI		$145,228
Adj. rate base	1,857,874	
ROR	8.3600%	
Required NOI		155,318
Net Revenue Deficiency		(10,090)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,225)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	846	801,874	43.16%	12.00%	5.18%
Long Term Debt	558,899	590	559,489	30.11%	7.81%	2.35%
Short Term Debt	56,194	59	56,253	3.03%	5.37%	0.16%
Preferred Stock	45,539	48	45,587	2.45%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(1,544)	292,123	15.72%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.36%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$268
1994-1999 Cumulative Avoided Cost	1,608

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

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Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,647	812,090	47.08%	11.75%	5.53%
Long Term Debt	445,931	3,123	449,054	26.03%	6.64%	1.73%
Short Term Debt	77,331	542	77,872	4.51%	6.01%	0.27%
Preferred Stock	44,105	309	44,414	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,620)	230,020	13.33%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.21%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,647	852,473	46.62%	11.75%	5.48%
Long Term Debt	467,909	300	3,122	471,331	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	691	104,271	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	161	24,234	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.85%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,620)	213,667	11.68%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.21%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	**(714)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.78%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.06%
Incremental Net Operating Income		1,251
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		2,036
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(2,036)
Maximum Allowed Revenue Reversal		28,414

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	1,049	5,647	984,552	47.24%	12.75%	6.02%
Long Term Debt	583,150	625	3,368	587,143	28.17%	6.73%	1.90%
Short Term Debt	95,482	102	551	96,136	4.61%	5.47%	0.25%
Preferred Stock	9,459	10	55	9,524	0.46%	5.48%	0.03%
Customer Deposits	47,015	50		47,065	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(1,837)		56,704	2.72%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(9,620)	257,097	12.34%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,414
Additional to be Reversed to Company	**1,357**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.65%	
Incremental Rate of Return		0.89%
Incremental Net Operating Income		19,017
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,960
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,492
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,492)
Maximum Allowed Revenue Reversal		35,808

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,824	5,647	1,018,805	47.68%	12.75%	6.08%
Long Term Debt	642,241	1,158	3,586	646,985	30.28%	6.61%	2.00%
Short Term Debt	69,311	125	387	69,823	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	87		48,311	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(3,194)		17,529	0.82%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(9,620)	292,465	13.69%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.65%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	35,808
Additional to be Reversed to Company	**1,739**

92-94 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,414)
1998 Revenue Reversal	(35,808)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,293

Refund Ordered	11,227
Refund Adjusted	6,293
(Additional)/Less Deferred Revenue Refund	**4,933**

Note:
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.45%	
Allowed Maximum Rate of Return at 12.00% ROE	8.22%	
Excess Rate of Return		0.23%
Excess Net Operating Income		4,869
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,926
Less 40% Sharing		(3,170)
Amount to be Refunded		4,756

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	4,518	1,012,498	47.83%	12.00%	5.74%
Long Term Debt	631,493	2,831	634,324	29.97%	6.54%	1.96%
Short Term Debt	77,699	348	78,047	3.69%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(7,697)	298,342	14.09%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.22%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,756
Additional (Less) to be Refunded	**(827)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

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Achieved NOI		$142,833
Adj. rate base	1,749,355	
ROR	8.2500%	
Required NOI		144,322
Net Revenue Deficiency		(1,489)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(2,394)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	5,222	753,669	43.08%	12.00%	5.17%
Long Term Debt	514,895	3,592	518,487	29.64%	7.56%	2.24%
Short Term Debt	39,223	274	39,497	2.26%	4.28%	0.10%
Preferred Stock	48,274	337	48,611	2.78%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(9,425)	283,052	16.18%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.25%

Avoided Cost from $1.163 Million of Implemented Annual Rates $1,231

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,325
Adj. rate base	1,857,874	
ROR	8.4000%	
Required NOI		156,061
Net Revenue Deficiency		(10,736)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(17,264)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	5,165	806,193	43.39%	12.00%	5.21%
Long Term Debt	558,899	3,604	562,503	30.28%	7.81%	2.36%
Short Term Debt	56,194	362	56,556	3.04%	5.37%	0.16%
Preferred Stock	45,539	294	45,833	2.47%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(9,425)	284,242	15.30%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.40%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$1,307
1994-1999 Cumulative Avoided Cost	7,842

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

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Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.66%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.08%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,532	811,975	47.07%	11.75%	5.53%
Long Term Debt	445,931	3,059	448,990	26.03%	6.64%	1.73%
Short Term Debt	77,331	530	77,861	4.51%	6.01%	0.27%
Preferred Stock	44,105	303	44,407	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,425)	230,216	13.35%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.94%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	5,532	851,816	46.58%	11.75%	5.47%
Long Term Debt	467,909	0	3,059	470,967	25.75%	6.74%	1.74%
Short Term Debt	103,514	0	677	104,191	5.70%	5.47%	0.31%
Preferred Stock	24,058	0	157	24,215	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(9,425)	213,720	11.69%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	**0**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,080,272
Adjusted Achieved Rate of Return	8.82%	
Allowed Maximum Rate of Return at 12.75% ROE	8 69%	
Incremental Rate of Return		0.13%
Incremental Net Operating Income		2,704
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,403
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,403)
Maximum Allowed Revenue Reversal		26,047

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(2,206)	0	2,553	978,203	47.02%	12.75%	6.00%
Long Term Debt	583,150	(1,316)	0	1,523	583,357	28.04%	6.73%	1.89%
Short Term Debt	95,482	(215)	0	249	95,516	4.59%	5.47%	0.25%
Preferred Stock	9,459	(21)	0	25	9,462	0.45%	5.48%	0.02%
Customer Deposits	47,015	(106)	0		46,909	2.25%	6.10%	0.14%
Deferred Revenues	58,541	(132)	0		58,409	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(4,350)	262,367	12.61%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(3,996)			2,080,272			8.69%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,047
Additional (Less) to be Reversed to Company	**(1,010)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,131,602
Adjusted Achieved Rate of Return	9.59%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		1.00%
Incremental Net Operating Income		21,316
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		34,702
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		6,234
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(6,234)
Maximum Allowed Revenue Reversal		32,066

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,932)	(577)	0	1,007,825	47.28%	12.75%	6.03%
Long Term Debt	642,241	(1,862)	(366)	0	640,012	30.02%	6.61%	1.98%
Short Term Debt	69,311	(201)	(40)	0	69,071	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(140)	(28)		48,057	2.25%	6.09%	0.14%
Deferred Revenues	20,723	(60)	1,010		21,673	1.02%	5.49%	0.06%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(5,195)			2,131,602			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	32,066
Additional (Less) to be Reversed to Company	**(2,003)**

89-91 Tax Years
Deferred Revenue Summary

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1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,047)
1998 Revenue Reversal	(32,066)
1995-1998 Interest	10,492
Refund as of 12/31/98	14,239
Refund Ordered	11,227
Refund Adjusted	14,239
(Additional)/Less Deferred Revenue Refund	**(3,013)**

Note:
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,112,738
Adjusted Achieved Rate of Return	8.50%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.31%
Excess Net Operating Income		6,549
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		10,663
Less 40% Sharing		(4,265)
Amount to be Refunded		6,398

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(2,327)	1,352	1,007,004	47.66%	12.00%	5.72%
Long Term Debt	631,493	(1,458)	847	630,882	29.86%	6.54%	1.95%
Short Term Debt	77,699	(179)	104	77,624	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(111)		47,984	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(4,094)		2,112,738			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	6,398
Additional (Less) to be Refunded	**815**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,771
Adj. rate base	1,749,355	
ROR	8.2200%	
Required NOI		143,797
Net Revenue Deficiency		(1,026)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(1,650)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	2,253	750,700	42.91%	12.00%	5.15%
Long Term Debt	514,895	1,550	516,445	29.52%	7.56%	2.23%
Short Term Debt	39,223	118	39,341	2.25%	4.28%	0.10%
Preferred Stock	48,274	145	48,419	2.77%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(4,066)	288,411	16.49%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.22%

Avoided Cost from $1.163 Million of Implemented Annual Rates $487

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

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Achieved NOI		$145,259
Adj. rate base	1,857,874	
ROR	8.3700%	
Required NOI		155,504
Net Revenue Deficiency		(10,245)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,474)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	2,228	803,256	43.24%	12.00%	5.19%
Long Term Debt	558,899	1,555	560,454	30.17%	7.81%	2.36%
Short Term Debt	56,194	156	56,350	3.03%	5.37%	0.16%
Preferred Stock	45,539	127	45,666	2.46%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(4,066)	289,601	15.59%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.37%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$517
1994-1999 Cumulative Avoided Cost	3,102

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

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Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.63%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.05%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.16%		
As Filed by Company	8.17%		
Excess Rate of Return		0.01%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	2,387	808,830	46.89%	11.75%	5.51%
Long Term Debt	445,931	1,320	447,251	25.93%	6.64%	1.72%
Short Term Debt	77,331	229	77,560	4.50%	6.01%	0.27%
Preferred Stock	44,105	131	44,235	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(4,066)	235,574	13.66%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.16%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	**0**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.17%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	2,387	848,670	46.41%	11.75%	5.45%
Long Term Debt	467,909	0	1,320	469,228	25.66%	6.74%	1.73%
Short Term Debt	103,514	0	292	103,806	5.68%	5.47%	0.31%
Preferred Stock	24,058	0	68	24,126	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(4,066)	219,079	11.98%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.17%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	**0**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,081,629
Adjusted Achieved Rate of Return	8.79%	
Allowed Maximum Rate of Return at 12.75% ROE	8.67%	
Incremental Rate of Return		0.12%
Incremental Net Operating Income		2,498
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,067
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,067)
Maximum Allowed Revenue Reversal		26,383

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,457)	0	1,102	977,501	46.96%	12.75%	5.99%
Long Term Debt	583,150	(869)	0	657	582,938	28.00%	6.73%	1.88%
Short Term Debt	95,482	(142)	0	108	95,448	4.59%	5.47%	0.25%
Preferred Stock	9,459	(14)	0	11	9,456	0.45%	5.48%	0.02%
Customer Deposits	47,015	(70)	0		46,945	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(87)	0		58,454	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(1,877)	264,840	12.72%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(2,639)			2,081,629			8.67%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,383
Additional (Less) to be Reversed to Company	**(674)**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

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Commission Adjusted Rate Base		2,132,508
Adjusted Achieved Rate of Return	9.56%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		0.97%
Incremental Net Operating Income		20,685
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		33,676
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		5,207
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(5,207)
Maximum Allowed Revenue Reversal		33,093

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,421)	(385)	0	1,008,528	47.29%	12.75%	6.03%
Long Term Debt	642,241	(1,537)	(244)	0	640,459	30.03%	6.61%	1.99%
Short Term Debt	69,311	(166)	(26)	0	69,119	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(115)	(18)		48,090	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(50)	674		21,347	1.00%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(4,289)			2,132,508			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,093
Additional (Less) to be Reversed to Company	**(976)**

86-88 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,383)
1998 Revenue Reversal	(33,093)
1995-1998 Interest	10,492
Refund as of 12/31/98	12,876
Refund Ordered	11,227
Refund Adjusted	12,876
(Additional)/Less Deferred Revenue Refund	**(1,650)**

Note:
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,113,533
Adjusted Achieved Rate of Return	8.48%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.29%
Excess Net Operating Income		6,129
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		9,978
Less 40% Sharing		(3,991)
Amount to be Refunded		5,987

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(1,876)	551	1,006,655	47.63%	12.00%	5.72%
Long Term Debt	631,493	(1,175)	345	630,663	29.84%	6.54%	1.95%
Short Term Debt	77,699	(145)	42	77,597	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(89)		48,006	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(14)		7,691	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(938)	305,101	14.44%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(3,299)		2,113,533			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	5,987
Additional (Less) to be Refunded	**404**

FLORIDA POWER CORPORATION
RESPONSE TO FPSC STAFF AUDIT DISCLOSURE NO. 14
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The Company has included interest on tax deficiencies as a recoverable expense. The Company included interest as a recoverable expense because the Company's ratepayers are direct beneficiaries of the its tax administration policies. The Commission recognized that ratepayers are the primary beneficiaries of tax planning and established a precedent for allowing such costs in rates in its Order Number 13948 in Docket No. 830465. In this Order, the Commission allowed Florida Power & Light to recognize in cost of service the amortization of interest on tax deficiencies. Although Order No. 13948 was not a generic Order, the issue involved and the underlying principles are equally applicable to all other investor-owned utilities.

Tax deficiencies and the related interest expense arise primarily because of varying interpretations of the tax laws, rules, regulations, etc. by taxpayers and taxing authorities. As discussed in the testimony of Mr. John Scardino, Jr. on pages 69 and 70, the tax law is very complex. While the Company makes a good faith effort to remain in compliance with the tax law, it will understandably interpret the tax law to protect the interests of its customers. The Company has used the term "aggressive" in this response to denote the preparation of tax returns in this manner. The IRS and the Department of Revenue, on the other hand, seek to protect the revenue position of the Treasury and other governmental entities of which they are a part. This divergence of interests and constituencies inevitably causes taxpayers and taxing authorities to have differing opinions as to the true tax liability that is due. In order to protect the interests of our customers, the Company prepares its returns to conserve cash flow and defer the need for external financing.

If the Company prepared its return as conservatively as a taxing authority may propose, the ratepayers would incur substantial additional financing and tax cost as will be subsequently demonstrated. The Company is considered by the IRS to be a "large case" taxpayer and consequently, its returns for each tax year will be subjected to audit. The Company is aware that when these audits occur, the IRS and other taxing authorities will take extremely conservative positions on issues that arise during the audits. Although the Company prevails on most of the positions that are taken in its returns, the taxing authorities prevail on some issues, thus giving rise to deficiencies and related interest.

It is important to note the process in which tax deficiencies are determined and agreed upon. As the agents conduct their audits, many issues are raised. For most issues, additional information or explanation will lead to their resolution. However, when the

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Company and agents remain at an impasse because of differing perceptions of the facts or interpretations of the law, the tax authority and the Company will settle some issues on a negotiated basis. Typically, the Company will settle issues for some percentage of the original amount suggested by the agents. When issues cannot be resolved with the audit agents, the Company will avail itself of the appeals process. The appeals process is designed by the IRS to provide administrative relief to taxpayers without litigation. As stated in Mr. Scardino's testimony, it is important to note that even though the Company does not prevail on all issues it takes to Appeals, the final tax liability negotiated in Appeals is typically less than that originally proposed by the IRS.

It is also important to note two additional points. The first point is that many issues that the Company takes an aggressive position on are never raised by a taxing authority. For those issues, there is a benefit created that does not require any additional expense or effort to defend. The second point is that on the positions that are questioned, had the Company never taken the controversial position in its return, it would never have been granted the compromise position that it receives from the agents or at Appeals. For example, the Company asserted in its tax return for 1982 that approximately $15 million spent on landfill at the Crystal River site was both depreciable and eligible for investment tax credit. The IRS in its audit report asserted that none of the landfill was depreciable or eligible for investment tax credit. In Appeals, the Company reached a settlement that allowed depreciation and investment tax credit on 72% and 70%, respectively. Clearly, being aggressive in the preparation of tax returns conserves cash flow and defers the need for external financing. However, being aggressive in the preparation of tax returns inevitably leads to tax deficiencies and related interest expense.

One of the concerns raised by some is that the ratepayers pay the same tax expense, under normalization, whether or not a company aggressively prepares its return. Therefore, the ratepayers receive no benefit from aggressive preparation of a return and thus should not have to bear any associated cost. It should be noted that while interest expense on tax deficiencies is a direct result of aggressive tax planning, it is, nevertheless, a true cost of capital. When the Company is required to pay interest on a deficiency, it is because the Company has withheld cash payments from a taxing authority and has used the cash to displace external capital financing. To the extent that other capital financing has been displaced, the cost of the capital displaced presents a savings to the ratepayers of the Company.

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The following example demonstrates the concept that tax deficiencies displace capital financing and lead to a direct benefit to ratepayers:

For the purpose of this example, a hypothetical utility has a $1,000,000 rate base and $100,000 of test year operating expenses. The rate base is supported by a capital structure comprising $500,000 of debt at a cost rate of 10% and $500,000 of equity at a cost rate of 15%; the overall cost of capital is thus 12.5%. The utility has an arguable position that, for tax purposes, it can deduct an additional $100,000 by, for example, deducting an item that is capitalized per books. However, its operating expenses for ratemaking purposes will not be affected by whether this deduction is taken. Finally, the income tax rate is 50%.

If the utility does not take the additional deduction, its revenue requirements will be as follows:

$100,000	-	operating expenses
125,000	-	required after-tax return on $1,000,000 rate base at 12.5% cost of capital
75,000	-	income taxes on pre-tax equity return (equal to after-tax equity return of $500,000 x 15% = $75,000)
$300,000		

However, if the utility aggressively pursues the arguably available deduction, its revenue requirements will be reduced even with normalization because the required return on the rate base and the income tax expense will be less:

$100,000	-	operating expenses
118,750	-	required after-tax return on $1,000,000 rate base at 11.875% cost of capital (effect of cost-free capital)
71,250	-	income taxes on pre-tax equity return (equal to after-tax equity return of $475,000 x 15% = $71,250)
$290,000		

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The required return on rate base would be lower because some of the debt and equity originally supporting the rate base is supplanted by the deferred taxes resulting from the $100,000 additional tax deduction:

$475,000	-	debt
475,000	-	equity
50,000	-	deferred taxes ($100,000 deduction x 50% tax rate)
$1,000,000		

Since the deferred taxes are included at a zero cost, the overall cost of capital is lowered accordingly:

47.5%	-	debt at 10% =	4.75%
47.5%	-	equity at 15% =	7.125%
5%	-	deferred taxes at 0% =	0%
			11.875%

As the example clearly demonstrates, the ratepayers have clearly benefitted from the utility's cost-free use of the deficiencies until such time as the amount must be paid to the IRS. It is important, therefore, to emphasize that the "real" cost or benefit to the ratepayers of taking certain positions in the Company's tax returns and ultimately having to concede those positions to the IRS is the differential between the interest owed to the government and the cost of capital the Company was able to avoid by having the use of the money during the period the tax liability was outstanding. The aggressive positions that were sustained and not conceded provide additional avoided cost benefits.

The Company has prepared an analysis which shows the cost of the federal tax deficiencies, the displaced cost of capital related to the deficiencies, and the benefit of aggressive positions sustained for the tax years 1982 - 85. A copy of the analysis is attached. This audit period was selected for analysis because these are the latest closed years for which we have been assessed interest on deficiencies. The displaced cost of capital was computed using short-term interest rates incurred by the Company. Although short-term interest rates are not theoretically correct (a blended cost of capital, using debt and equity, would have been theoretically correct), they were used as a conservative measure of the displaced cost of capital without distorting the overall results. The difference between the interest on deficiencies and the interest expense that would have been incurred if the deficiencies were replaced by short-term borrowings for tax years 1982 through 1985 is a net cost of $2 million. If the theoretically correct blended capital structure cost had been used, the computations would actually reflect a net benefit of $2.1 million.

The avoided cost benefits related to aggressive positions that were sustained were also computed using short-term borrowing rates rather than blended capital rates for simplicity. In order to determine the cost benefit of positions sustained, the Company compared major issues in the Revenue Agent's Report (RAR) where deficiencies were asserted, that were subsequently resolved at Appeals for lesser amounts. Comparing RAR audit assessments to Appeals settlements provides a very conservative estimate of the true benefits of planning. As previously stated, many aggressive positions are never questioned by the agents. Many issues that are questioned by the agents are settled at lesser amounts than the agents originally proposed and are never included in the RAR. Finally, many audits are settled at the agent level and are never appealed. Again, the RAR assessments were used to provide simplicity and objectivity for our analysis.

The net cost savings from aggressive positions that were sustained at Appeals were $19.8 million for tax years 1982 - 1985. The savings represent a combination of permanent tax savings such as investment tax credit on 70% of the Crystal River landfill and avoided interest expense on timing differences such as accelerated depreciation on 72% of the landfill.

To summarize, the cost or benefit of aggressive positions taken in the Company's tax returns is the differential between the IRS underpayment rate and the Company's avoided capital cost rate. This cost or benefit, however, is far outweighed by savings that were only realized because the Company took the controversial positions in its original returns.

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INTEREST ANALYSIS ON FEDERAL TAX DEFICIENCY

(Thousand's)

Line No.	(A)	(B) Total	(C) Workpaper Reference
1	Net Interest – Cost of Tax Deficiency		
2	Interest Owed On Tax Deficiency Through 12/31/91	$6,243	7 & 8 of 17
3			
4	Avoided Interest Expense on Tax Deficiency Through 12/31/91	4,202	9 of 17
5	Net Interest Cost	2,041	
6			
7	Savings Derived From Appeals Negotiations		
8	Permanent Tax Savings From Appeals Negotiations	2,140	10 & 11 of 17
9			
10	Avoided Interest on Taxes Deferred From Appeals Negotiations	17,699	12 thru 17 of 17
11	Total Savings From Appeals Negotiations	19,839	
12			
13	Net Cost (Savings)	($17,798)	